Annu. Rev. Sociol. 2005. 31:199–222
doi: 10.1146/annurev.soc.31.041304.122258
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First published online as a Review in Advance on April 4, 2005

# THE SOCIAL CONSEQUENCES OF STRUCTURAL ADJUSTMENT: Recent Evidence and Current Debates

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**Key Words** globalization, neoliberalism, dependency, World Bank, International Monetary Fund

■ **Abstract** Thirty years ago, intellectual debates concerning the relationship between wealthy and poor nations could be summed up under the rubric of modernization versus dependency. However, the events of the 1980s and 1990s completely shifted the terms of this debate. Associated with the structural adjustment lending programs of the World Bank and International Monetary Fund, and neoliberal ideology, a new policy discourse suggested that it was only through liberating market forces that poor countries could grow and catch up to the developed world. With 20 years of structural adjustment behind us, what does the evidence suggest about the social consequences of these policies? This review focuses on three different social transformations: changes in the governance of economies, transformations in class structures, and the rise of transnational networks.

## INTRODUCTION

Once upon a time, intellectual debates around the relationship between wealthy and poor nations could be summed up under the rubric of modernization versus dependency. For modernization theorists, all good things went together: Capitalist development, democratization, industrialization, urbanization, rational-legal administration, and increased well-being were assumed to be part of a single process that occurred in roughly the same way in all national contexts. In contrast, dependency theorists argued that the domination of rich over poor countries meant that modernization looked quite different at the periphery. Because of such relations of domination, foreign investment and national industrialization did not propel developing countries along the same trajectory as the wealthy democracies, but rather was compatible with manifold economic, political, and social distortions.

Beginning in the 1980s, however, this debate was rendered obsolete by a very different hegemonic order. Whereas modernization and dependency theorists alike had advocated for strong government involvement in promoting economic development, the new conventional wisdom demanded a dramatic downsizing of many government interventions. Associated with the structural adjustment lending programs of the World Bank and International Monetary Fund (IMF), and neoliberal ideology, the new policy discourse suggested that it was only through thus liberating market forces that poor countries could grow and catch up to the developed world. Whereas modernization and dependency theorists were drawn from a range of social science disciplines, both the new model and its most prominent critics tend to be economists. Much of the recent work on the consequences of structural adjustment, therefore, has focused on its economic consequences. This essay, in contrast, seeks to revisit some of the older themes of modernization and dependency through looking at recent literature addressing the social dimensions of recent trends.

## STRUCTURAL ADJUSTMENT IN HISTORICAL PERSPECTIVE

Structural adjustment is a relatively recent phenomenon. In the decades following World War II, economic policy in the industrialized core reflected Keynesian economic ideas that prescribed the taming of markets through macroeconomic interventions (see Ruggie 1983). In poorer countries, much more direct state interventions in the economy were tolerated or even encouraged by the core. Even in nominally capitalist developing countries, state-owned enterprises played a significant role in national output during this period; indeed, they were actually encouraged and financed by the World Bank (Kuczynski 1999). Some other key elements of the postwar regime were controls on capital movements (which were explicitly condoned by the charter of the IMF) and systems of protection of domestic industries from foreign competition.

By the end of the 1970s, however, the seeds of a new regime had been sown. First coined by World Bank President Robert McNamara at the end of the 1970s, structural adjustment referred to a set of lending practices whereby governments would receive loans if they agreed to implement specific economic reforms (Kapur et al. 1997, pp. 505–6). Although it was not clear what this meant at the time, only a few years later, World Bank and IMF lending arrangements had begun to aim at an ambitious agenda in keeping with the ascendant Reagan revolution: to encourage free markets and foreign investment.

The moment was precipitated by the outbreak of the Third World debt crisis in 1982. The indebtedness of LDC (least-developed country) governments can be traced back to the 1970s, when low interest rates, high inflation, and a glut of "petrodollars" led international banks to invest in the developing world. When global interest rates rose dramatically at the end of the 1970s, these debts became unsustainable. The debt crisis made persuading governments to implement policy reforms easier because such reforms could be required as preconditions to bailout funds. Privatization was particularly attractive because it both satisfied multilateral lenders and provided much-needed revenues. But there were also more subtle pressures: Trapped under unwieldy debts and stagnating economies, governments were increasingly courting foreign portfolio investors, who were more likely to be attracted to governments that provided strong guarantees to property rights and did not interfere excessively in markets (Stallings 1992, Fourcade-Gourinchas & Babb 2002, Mosley 2003). Governments also came to rely on the advice of U.S.-trained economists in high government posts, whose presence helped foster investor confidence—and who tended to be fervent believers in the need for market reforms (Markoff & Montecinos 1993, Schneider 1997, Domínguez 1997, Babb 2001). All these factors combined to create the conditions for the policy reforms of the following decades.

As a precise technical term, "structural adjustment" leaves a great deal to be desired: The policies associated with this term have shifted over time, and it is no longer associated with any particular lending program. In this review, therefore, I do not use structural adjustment as a technical term, but rather refer to its more interpretive and historical meaning—a term associated with a cluster of overlapping historical and conceptual associations in the same way as are the terms "modernity" or "democracy."

This review examines literature that reflects on the social characteristics of the era of structural adjustment. It is not designed to reflect on recent literature on economic development as measured by growth in national income and productivity. The relationship between globalization and development is at the center of an enormous, thriving, and complicated debate that would merit its own literature review.[1] In contrast, this essay focuses on literature reflecting on the organizational, institutional, and class structures of national societies.

Even leaving aside issues of economic development, the consequences of structural adjustment are enormous, complex, and globe-spanning. I have therefore made several strategic decisions to pare this topic down to a more manageable size. First, I have opted to focus on the experience of developing countries—even though structural adjustment has contributed to the transformation of developed countries as well. Second, I have deliberately excluded literature on formerly state socialist economies, which have been subjected to most of the same policies but under very different historical circumstances. Third, my review focuses disproportionately on the experience of Latin America and the Caribbean, which is the focus of a great deal of the existing literature. Fortunately, in many respects, Latin America represents a relatively good laboratory for gauging the effects of structural adjustment in that it contains a range of incomes per capita, from the poorest of the poor (Haiti) to relatively well-off (Argentina).

[1] Readers wishing to learn more about this debate might begin with Gereffi & Wyman 1990, Gereffi 1994, Evans 1995, Rodrik 1997, Guillén 2001, Chang 2002, Stiglitz 2002, Broad 2002, and Cline 2004. Two think tanks, the Institute for International Economics (http://www.iie.com) and the Center for Economic and Policy Research (http://www.cepr.net), provide useful entries into how economists with opposing viewpoints frame the debate.

What consequences has this shift in economic policy regimes had for underdeveloped societies? To what extent have the trends of the past two decades sharpened the distinctions between core and periphery—and to what extent have they brought them closer together? The following sections seek to answer these questions through examining three different social transformations: changes in the governance of economies, transformations in class structures, and the rise of transnational networks.

## THE GOVERNANCE OF ECONOMIES

Modernization theorists saw developed and developing countries coming together in an inevitable process of institutional convergence. As Marion Levy contended in 1967, "As time goes on, they and we will increasingly resemble one another... because the patterns of modernization are such that the more highly modernized societies become, the more they resemble one another" (Levy quoted in So 1990, p. 33). Has the era of structural adjustment made the periphery more structurally similar to the core? This section evaluates the extent of convergence in the governance of national economies.

Today, states in developing countries are doing a lot less of certain things. They are less directly involved in production: Between 1988 and 1994, LDC governments transferred more than 3000 entities from public to private hands (Bouton & Sumlinski 1996, p. 5). States are also decreasing their protection of domestic industries from foreign competition (through tariffs, licenses, etc.) (compare Lora 2001). They are putting fewer constraints on financial markets, fewer barriers on free movement of capital across their borders, and fewer regulations on labor markets (Lora 2001, Epstein et al. 2003). They are also operating with much tighter fiscal policy: Even during recessions, they are refraining from using their central banks to finance deficit spending. To demonstrate their commitment to noninflationary monetary policies, many have adopted legislation making their central banks independent (Maxfield 1997).

However, although states in developing countries have withdrawn from certain activities, they have simultaneously increased their involvement in others. To offset the revenues lost through removing tariffs, they have reformed their taxation systems to more effectively extract resources, commonly replacing taxes on income and wealth with more easily administered (but more regressive) value-added taxes (Lora 2001). They have strengthened private property rights and expanded these rights for foreign firms—for example, by removing restrictions on foreign ownership of land and productive assets. They have joined the World Trade Organization (WTO), which promotes safeguards for property, including controversial intellectual property safeguards, in conjunction with trade opening (see Sell et al. 2003, Shadlen et al. 2004). In addition to protecting property rights, LDC governments have recently been encouraged to adopt so-called governance reforms—to construct institutional frameworks to help safeguard against market imperfections, such as bankruptcy legislation and judiciary independence (Kapur & Webb 2000, Kaufmann 2004).

The defining feature of the new regime is an increased role for private investment—particularly foreign private investment, in the economy. This trend represents both a continuation of and a break from the postwar governance regime. Foreign direct investment (e.g., Ford setting up a factory in Sao Paolo) was a staple of the "associated-dependent development" or "dependent development" system so sharply criticized by dependency theorists in the 1970s (compare Cardoso 1973, Evans 1979). Recently, however, foreign direct investment has become much more important to the economies of developing countries than it ever was during the heyday of dependency theory. Furthermore, the rise of private foreign portfolio investment (e.g., American investors buying stock in a Mexican telephone company, or buying Mexican government bonds) marks a qualitative historical break from the past. In 1970, portfolio investment in developing countries was, for all practical purposes, nonexistent; in 2000, there was a net inflow of $47.9 billion (World Bank 2001, p. 246).

These trends raise interesting theoretical issues about how to define the new institutional framework or organizing logic governing developing countries (Biggart & Guillén 1999). In at least some respects, the sort of institutions that are emerging resemble the American model of regulatory capitalism (Campbell & Lindberg 1990). Under this model, the tasks prescribed for states include the enforcement of contracts, the regulation of natural monopolies, the administration of taxes, and the provision of infrastructure. Perhaps what we are witnessing throughout the developing world is a process of "institutional isomorphism," converging on the organizational patterns of the industrialized North in general, and the United States in particular (DiMaggio & Powell 1983). This interpretation, if true, would support the homogenizing predictions of modernization theorists.

Indeed, proponents of the new model unintentionally echo modernization theorists in asserting that opening to free trade and foreign investment will ultimately promote greater institutional convergence. Although opening to foreign competition may put inefficient local firms out of business, foreign investment brings improved technologies and management techniques, from which recipient nations will benefit. Because better management and technology increases productivity, more jobs will be available; over time, wages will rise, workers and citizens will demand more of governments and firms, and industrial, social, and environmental regimes will converge with those of the North (Graham 1996, 2000; Frankel 2003; Cline 2004).

In the remainder of this section, however, I argue that any strong claim that developing economies have been "Americanized" would be inaccurate—or at the very least, premature. On the one hand, it is true that state interventions have been replaced with a more uniform model reminiscent of the institutions of core capitalist powers. On the other hand, structural adjustment also illustrates the limits of convergence and has brought about the construction of institutions that depart, sometimes sharply, from the American model (Guillén 2001). Although there is insufficient space here to treat this issue completely, I focus on three divergent institutional outcomes: institutional mismatch, institutional overshooting, and the erosion of social citizenship.

One reason for divergent outcomes is that markets have been transplanted to alien worlds, governed by different norms and rules, and lacking the supporting institutions that took decades or even centuries to develop organically in their original contexts. As a result, there may be a mismatch between new and old institutions. In Mexico, for example, privatization and financial liberalization were conducted without a corresponding revision of bankruptcy legislation, which created the conditions for a $55 billion bailout of the banking system (Carruthers et al. 2001, p. 114). Privatizations in developing nations have often been tainted by long-standing collusions between big business and government, which led to the consolidation of monopolies rather than the establishment of competitive markets (Ramirez 2001, Schamis 2002). Although the governance reforms being promoted by multilateral lenders today are designed to prevent such undesirable outcomes, they are far more difficult to define and implement than the liberalizing reforms initiated in the 1980s (see Kaufmann 2003, 2004).

In addition to institutional mismatch, there is also evidence of institutional overshooting—going beyond the American model. Such overshooting can often be traced to the extreme dependence of these governments on the resources of foreign investors and international financial institutions. Portfolio investors are known to conduct speculative attacks against these governments. Because of the perceived uncertainties of investing in emerging markets, portfolio investors hold the governments of developing countries to much higher standards of behavior than those of their developed counterparts (Martínez & Santiso 2003, Mosley 2003). Third World governments must behave as unusually upstanding global citizens, or face the consequences of capital flight, destabilizing currency depreciations, and macroeconomic mayhem. Partly as a result of such pressures, many Third World governments have maintained very high interest rates and fiscal surpluses (a policy that stands in stark contrast, for example, to the policies of Federal Reserve Chairman Alan Greenspan since the mid-1990s), with negative consequences for growth (Weisbrot 2006).

Governments may also overshoot because of more direct pressures exerted by multilateral organizations, which condition their loans on policy reforms (Kahler 1990, Stallings 1992, Kapur & Webb 2000, Babb 2003). At least some of the reforms promoted by these multilateral organizations seem to have surpassed the American model considerably in their degree of market friendliness. To return to the previous example, the IMF generally conditions its bailout funds on fiscal and monetary targets that are, by U.S. standards, extraordinarily strict (Barro & Lee 2002, Vreeland 2003). To take another example, the World Bank, IMF, and U.S. Agency for International Development (USAID) have been promoting the replacement of publicly funded social security systems with private, individual accounts; social security systems have been privatized throughout Latin America and the formerly communist world (Baker & Kar 2002; Wade 2004b, p. 178). In the United States, however, the privatization of social security has (as this article goes to press) been too politically controversial to implement, despite the best efforts of the current administration to rally support. The World Bank and the IMF have also promoted the implementation of "user fees" on primary education, thus interfering with the ability of poor families to send their children to school (Naiman 2000). One explanation for such overshooting is that multilateral (and certainly bilateral) organizations do not simply function as neutral transmitters of organizational templates, but are also subject to influence by vested economic, political, and organizational interests that influence which kinds of policies get promoted (see Babb & Buira 2004).

In evaluating the institutions being constructed in the new era, it is useful to distinguish between defining institutions of regulatory capitalism, on the one hand, and the institutions for promoting social welfare, on the other [we can think of these as corresponding very roughly to T.H. Marshall's civil citizenship and social citizenship (Marshall 1949)]. The enforcement of property rights and contracts, the regulation of monopolies, support for a standing army, etc., are examples of institutions without which competitive markets cannot function. It is mostly the American variety of these institutions that are being transferred to developing countries (even if with unexpected consequences).

Even in the market-friendly United States, however, these are not the only recognized functions of government. For example, with the exception of radical libertarians of the sort that populate the Cato Institute, most Americans consider it legitimate for governments to tax citizens to finance social programs and public education, regulate firms to guarantee worker safety, and protect citizens from environmental degradation. Overall, the institutions of social citizenship have been less consistently supported by multilateral organizations than the institutions of civil citizenship. The WTO has been criticized for failing to develop sanctions for governments that allow child labor and other practices considered abusive by the International Labor Organization (Khor 2002). Recently, the World Bank and the IMF have begun to require that their most impoverished borrowers set aside a fixed percentage of their expenditures for "pro-poor" spending. However, because these lenders simultaneously require reductions in government spending, deflationary monetary policy, and the repayment of external debts, the effects of these poverty-reduction strategies may be cancelled out (Babb & Buira 2004, p. 11).

Leaving aside the influence of multilateral organizations, the institutions of social citizenship may be eroded simply because developing countries—unlike the United States—are burdened with external debt denominated in foreign currencies. Heavily indebted states have arguably adopted a role that diverges considerably from that adopted by core states: namely, the extraction of domestic resources and their export abroad. In some respects, this role is reminiscent of the colonial dependence of the nineteenth century (Dos Santos 1971). Resources spent on servicing debt are obviously resources that are not being spent on such recognized, basic functions of liberal capitalist government as the provision of public health, education, and infrastructure (see Sachs 2002). A recent IMF study finds that external debt has a statistically significant negative impact on governments' ability to fund social programs (Loko et al. 2003).

Finally, structural adjustment may erode social citizenship by decreasing the bargaining power of states and citizens vis-à-vis private investors. To the extent that they cut into profits, the construction of social welfare–governing institutions tends to be resisted by firms. The history of the industrialized democracies suggests that they are constructed in spite of resistance from firms, by states responding to the demands of organized social groups (see Weir & Skocpol 1985, Esping-Andersen 1999, Amenta 2003). Because Third World citizens and governments are in a disadvantaged bargaining position with respect to foreign investors, and even more so with respect to multilateral organizations like the IMF, they may be hampered in their ability to construct the institutions of social citizenship that developed countries take for granted. This is the premise underlying the famous "race to the bottom" so often cited by global justice activists: In their view, today governments are competing among themselves to attract foreign investors by providing the lowest taxes and the least stringent labor and environmental regulations (see http://www.aboutglobalization.com). Even standard neoclassical economic models provide some support for this idea (see Rodrik 1997, 1998).

However, there are at least two versions of the "race to the bottom" hypothesis. One version supposes that globalization subjects the workers and states of all regions—developed and developing alike—to such competition; the result should be institutional convergence of core and periphery toward uniformly low wages, standards, and social protections. Empirical analyses suggest that the overall trend toward reduced taxes on capital and declining unionization in OECD economies can be traced at least in part to economic globalization (Western 1995, Rodrik 1997). There is also evidence that the North American Free Trade Agreement (NAFTA) has contributed to job losses among low-skilled workers in the United States (Audley et al. 2003). But although the wages of low-skilled workers and taxes on corporations may be declining in the wealthy North, nobody is yet claiming that social protections and environmental regulations in Germany and the United States are being downsized to resemble their counterparts in Zimbabwe and Bolivia. Most global trade and foreign direct investment occur among wealthy countries, rather than between wealthy and poor nations (see Wade 2004b, pp. 172–73). Wealth and power continue to have their privileges, although there is no doubt that some of these privileges have been eroded for non-elites in developed countries.

What I examine here is the second version of the "race to the bottom," which focuses on competition among developing countries. In this view, structural adjustment puts developing countries in a particularly poor bargaining position. Heavily indebted, capital-poor countries with high levels of unemployment are desperate for foreign investment. However, in courting investors, they are flocking to a crowded market niche of similarly desperate countries, all selling low-wage, low-skilled work on the global marketplace (see Gereffi 1994 on the "flying geese" model of development). To make themselves look more competitive to investors shopping around for the best deal, they may offer lower levels of taxation, regulation, etc. If true, this pattern should lead to a polarization between developed and developing countries, with the latter converging among themselves on uniformly low regulatory standards and levels of social protection.

Anyone who has any experience with the antisweatshop movement on college campuses has seen an array of shocking facts; incredibly low wages, long hours, child labor, employer abuses, and wanton toxic dumping (see http://www.sweatshopwatch.org). However, to prove that there is a race to the bottom, we need evidence that the inhabitants of developing countries are worse than they would have been otherwise. Unfortunately, this presents manifold problems of measurement and controlling for extraneous factors. The removal of trade barriers and the opening to foreign investment occurred as part of a complex amalgam of social changes—external debt, increased pressures from multilateral organizations, privatization, vulnerability to balance-of-payments crises, etc.—that cannot be operationalized into a single variable. There are critical measurement problems with some of the most important elements of structural adjustment; "economic openness" itself is remarkably difficult to measure (Agénor 2002). Even assuming good measures for the independent variable, it is important to disaggregate the data to distinguish the impact on different social groups; but the demographic and labor market data from many developing countries are incomplete at best. Because disentangling and analyzing these different factors is so difficult, empirical evaluations of the race to the bottom hypothesis tend to be both partial and hotly contested.

Has state capacity to provide social welfare benefits declined? One circumstance that appears to support this idea is the rise of export-processing zones (EPZs)—special manufacturing areas where Third World governments offer investors exemption from taxation and regulation. According to the World Bank, whereas only a few such zones existed in 1970, by 1996 there were over 500 zones in 73 countries (World Bank 1996). This suggests that Third World governments are competing for foreign direct investment by lessening potentially welfare-enhancing interventions, such as the extraction of fiscal resources. Nevertheless, more optimistic observers would argue that existing taxes and regulations were too onerous to begin with, and that setting up EPZs is a necessary step in fostering economic development, which will ultimately increase human welfare. For reasons discussed in the following section, however, critics could reply that there is little evidence that such economic development is actually occurring (see Weisbrot et al. 2001).

What impact does structural adjustment have on the environment? There is little controversy over global environmentalists' assertion that external debt contributes to environmental degradation—after all, for a heavily indebted nation, the price of a clean and sustainable environment may be unaffordable (Shah 1998). However, other assertions have been hotly contested. For example, the WTO has been accused by activists of systematically undermining national environmental standards by imposing sanctions on governments that try to enforce environmental standards in trade; other observers say these claims are exaggerated (Wallach 2000, Frankel

2003). Supporters of current policies suggest that liberalizing reforms generate economic development and that, in turn, such development increases respect for the environment: There is a strong correlation between environmental standards and GDP per capita (Graham 2000, pp. 131–48; Frankel 2003). Once again, however, this argument rests on the contestable premise that development is occurring in the first place. It also overlooks the fact that not all indices of pollution decline with economic growth (Audley et al. 2003, p. 66). The recent Carnegie Endowment report on the impact of NAFTA finds that it has not been as damaging to the environment as was originally feared, although there have been negative impacts in certain sectors, particularly in rural areas (Audley et al. 2003).

Has structural adjustment weakened labor unions in developing countries? In contrast to the literature on union decline in OECD nations (compare Western 1995, Lambert 2000), there has been little cross-national comparative research on trends in unions in the developing world. The partial accounts that exist paint an ambiguous picture that neither clearly supports nor refutes a race to the bottom in labor organizing. One national case that supports a pessimistic interpretation is that of Mexico, which lifted trade barriers and invited in foreign investment under the auspices of NAFTA. Since the implementation of NAFTA in 1993, real wages in Mexico have declined significantly, the minimum wage has been held down to foster international competitiveness, and unions have been weakened; in line with the predictions of neoclassical theory, unskilled workers appear to have been hurt the most (Cortez 2001, Audley et al. 2003). But it is not clear that the Mexican case can be generalized to the rest of the developing world. Frundt (2002) finds increased rates of unionization in Central America during the period of structural adjustment, although he suggests that the strength of unions may have declined. In a cross-national study, Mosley & Uno (2004) find that neither foreign direct investment nor trade openness are significant correlates of labor rights violations, although they do correlate with region and level of development. Murillo & Schrank (2005) observe that 13 of the 18 collective labor reforms implemented in Latin America between 1985 and 1998 enhanced rather than limited collective bargaining rights, an outcome they attribute partly to the strategies of traditional labor-backed parties and partly to transnational activism (discussed below).

This section has focused exclusively on the governance of national economies, broadly defined to include social welfare–enhancing institutions. However, it is worth mentioning briefly another set of institutions that have been transformed in the era of structural adjustment: namely the rules of national politics. Existing literature on the topic of democratic transitions focuses on Latin America—arguably the continent in which the transformation has been most dramatic. Weyland (2004) argues that although the rise of market-friendly institutions has made Latin American democracy more sustainable, it has simultaneously limited the quality of this democracy (see also Kurtz 2004). The end of the cold war and the opening of national economies to international markets led to increased pressures for minimal procedural democracy, both from the U.S. government and from foreign investors in search of stable investment climates. It also weakened leftist parties and other proponents of radical reforms, decreasing elite groups' perception that dictatorship was the only solution. The net result has been that social groups and political parties are more likely to agree on the means (democratic elections), even if they disagree with the ends. However, Weyland also points out that the changes associated with structural adjustment have also put severe constraints on the quality of democracy. Economic constraints and the threat of capital flight limit the latitude of possible policies. Such restrictions on policies have led to weakened political parties and depressed participation—eerily echoing the apathy of the U.S. electorate. The accountability of elected leaders to their constituents has also declined (see also O'Donnell 1994, Roberts 2002, Stokes 2003, Martínez & Santiso 2003).

Ultimately, what can we conclude about structural adjustment and institutional convergence? At the risk of sounding excessively conciliatory, I suggest that the available evidence echoes aspects of both modernization and dependency theories. On the one hand, institutions still work quite differently in the global South. States continue to service large and unsustainable debts; their policies must respond to the leverage of multilateral institutions and the need to maintain investor confidence. Now more than ever, dependency matters: There are fundamental differences between the roles of states in developed and developing countries that can be traced to large differences in bargaining power. On the other hand, we must concede that developing countries have adopted a model of governance that resembles, in its most general outlines, the sort of capitalism that is practiced in the United States. Whether this appears to have contributed to the further modernization of national societies is explored in the following section.

## THE TRANSFORMATION OF CLASS STRUCTURES

The two most hotly debated issues in the literature on liberalizing reforms are (*a*) whether they have promoted economic development, and (*b*) whether they have promoted equality. This section attempts to sort through some of the literature on changing national and global class structures.

Although there is not enough space in this review to address debates about economic development in more than a superficial way, we should briefly review some evidence on this point: Economic growth, after all, has consequences for global social structure. The ostensible reason for implementing free-market reforms was that they would generate growth, development, and a convergence of the incomes of developed and developing countries (Williamson 1994, pp. 27–28). Twenty years later, the evidence in favor of these initial claims has been disappointing. For example, from 1960 to 1980, output per person grew 75% in Latin America and 36% in sub-Saharan Africa; in contrast, between 1980 and 2000, it grew by only 6% in Latin America and actually fell by 15% in sub-Saharan Africa (Weisbrot et al. 2001).

These data, however, do not necessarily lead to the conclusion that market liberalization is bad for economic development. One counterargument is that national incomes have been dragged down by large external debts, which are the fault of governments, not market opening. Another counterargument is that market openings have not been carried far enough—if governments could remove remaining barriers to the functioning of markets, then there would be a more impressive rise in national incomes. A related argument is that development takes time, and that developing countries need to wait for the new model to bear fruit. Finally, the model's supporters point out that some countries have been doing very well: India and China, in particular, have been growing very rapidly (Graham 2000, Cline 2004, Weisbrot 2006).

What do the macroeconomic and demographic data tell us about trends in overall global inequality? First, it is important to distinguish between inequality within countries and inequality between countries. The question of inequalities between countries—whether countries like Mexico and India are catching up to countries like the United States and Japan—is quite controversial. Although some observers argue that inequalities across nations have declined, others have come to the opposite conclusion (e.g., Kentor 2001, Dollar & Kraay 2002, Milanovic 2002, Galbraith 2002, Firebaugh 2003). To make sense of this apparent contradiction, Wade (2004a) shows that the answer depends on how researchers measure and compare national wealth. One method is to compare the raw figures on national GDP converted into U.S. dollar amounts, and compare across nations. According to these numbers, there is a clear pattern of rising inequality: some countries have been getting a lot wealthier, and others have been left behind. However, those claiming a convergence in national incomes use numbers that differ in two respects. First, they use numbers that are weighted by population: Thus, the two largest developing countries (India and China) have an enormous impact on the final figures. Second, they use numbers that have been adjusted for purchasing-power parity (PPP), to control for the fact that a dollar in India, for example, will buy a great deal more than a dollar in the United States. The PPP-adjusted national GDPs, weighted for population, show a pattern of rising equality—but this effect disappears when India and China are subtracted from the calculations.

Thus, claims to rising equality across nations are based on the indisputable fact that India and China have been growing at a tremendous pace over the past two decades. What is extremely disputable, however, is whether this economic growth—and hence income convergence—can be attributed to structural adjustment. Neither India nor China is a particularly good representative of free market orthodoxy. Although it has used trade and foreign investment to its advantage, China continues to have an enormous state-owned sector and an inconvertible national currency. India's growth spurt began a decade before it began to implement liberalizing reforms, and protectionist tariffs actually increased during this first phase of growth (Rodrik & Subramanian 2004). Meanwhile, Latin American economies in which market reforms have been implemented in a more orthodox manner have mostly suffered from stagnant levels of economic growth.

The data on global poverty have also generated a lively controversy. Basing their claims on in-depth knowledge of national case studies, a number of critics of structural adjustment have asserted that it has been pushing citizens of developing countries beneath the poverty line (Chossudovsky 1997, Taylor 2001). But in 2002, World Bank Managing Director James Wolfensohn famously declared that the number of people living on less than $1.00 a day had fallen by 200 million (World Bank 2002). Does this mean that the global war on poverty is being won? Wade (2004a) shows that in addition to a number of more minor problems, there is a fundamental methodological error in this claim: It compares figures from 1980 and 1998 that are not comparable because of a significant change in the World Bank's methodology for calculating the poverty line. An alternative is to look at demographic numbers on poverty, such as life expectancy at birth. Life expectancies at birth have increased among poor countries since the 1980s. However, during the 1980–1998 period, the progress of poor countries in catching up to the life expectancy of wealthy ones slowed considerably compared with the previous 20 years (Weisbrot 2006).

The question of inequality within countries is less controversial than the question of between-country inequality, or the question of poverty; even optimistic observers, such as Firebaugh (2003), concede that within national boundaries, income inequality has been increasing. To illuminate how these trends have played out in developing countries, there is a large and growing body of national case studies focusing on various indicators of social well-being and inequality (see Feliciano 2001, Taylor 2001, Amann & Baer 2002, Carneiro & Arbache 2003). Two particularly useful studies are Portes & Hoffman's (2003) study of changing Latin American class structures and the recent Carnegie Endowment report on the impact of NAFTA on Mexico a decade after its ratification (Audley et al. 2003). Whereas the Portes & Hoffman study has the virtue of considering an entire continent's experience through the lens of a range of indicators of inequality and social welfare, the Carnegie study provides a detailed, in-depth account of the complexities of a single nation's experience with opening its economy to its wealthier and more powerful northern neighbors.

Both studies paint sobering portraits of the impact of structural adjustment on national class structures. During the 1980s and 1990s there was an increase in income inequality in Latin America, with a consistent concentration of wealth in the top decile of the population (Portes & Hoffman 2003). Such income polarization has been particularly notable in Mexico. Meanwhile, the percentage of Mexicans beneath the poverty line is still greater than it was in the late 1970s, and real wages have actually declined (Audley et al. 2003).

Of course, the causes of these phenomena are complex, and we should not be too quick to jump to conclusions: The debt crisis in the 1980s and the peso devaluation in the 1990s played important parts in these trends, and it is not easy to disentangle these factors from market liberalization (Audley et al. 2003, p. 18). Such ambiguities notwithstanding, the Mexican experience under NAFTA helps highlight some important processes that are contributing to qualitative changes in national class structures across the developing world. One such process is the movement of rural populations away from their native towns to urban centers or to places where they take jobs as low-wage agricultural workers (Araghi 1995, p. 338). The mass movement off the land is part of a longer-term trend that predates the structural adjustment era by a many decades. However, structural adjustment has accelerated this trend by making traditional and small-scale agriculture even less viable. Under the new regime, small-scale farmers in the developing world receive fewer subsidies, face higher interest rates, and face competition with heavily subsidized and well-capitalized foreign agribusiness (see Bryceson 2002, Crabtree 2002).[2] Mexican government authorities estimate a loss of 1.3 million jobs in the agricultural sector between 1993 and 2002 (Audley et al. 2003, p. 20).

This process of de-agriculturalization is only one of many simultaneous pressures on labor markets that may arise in the era of structural adjustment. A second source of pressure is the privatization of state-owned firms, which often leads to downsizing worker layoffs (Taylor 2001). Over the past two decades, there has been a significant contraction in formal sector employment in developing countries and a corresponding move toward employment in the informal economy (Schaefer 2002, Portes & Hoffman 2003). In other words, the labor force has come to be characterized less by employees and more by independent agents—from small business owners to ambulant chewing-gum sellers to garment pieceworkers. Although the rise of the informal economy is lauded by some observers as a necessary escape valve from cumbersome taxation and government regulations (Tripp 1997, Schneider 2002), other observers point out that it involves replacing stable, state-regulated jobs with a form of employment that tends to be precarious, poorly paid, and less productive (Iztigsohn 2000, Farrell 2004).

A third source of pressure on labor markets in LDCs is the restrictive monetary policy that has become the norm under the structural adjustment regime. To foster the confidence of foreign investors and continue to receive financing from multilateral organizations (particularly the IMF), governments have prioritized the fight against inflation, often changing central bank legislation to take monetary policy out of the hands of the executive (compare Maxfield 1997, Mosley 2003, Babb & Buira 2004). However, reducing inflation to the levels preferred by the international financial community requires high interest rates—and high interest rates decrease domestic investment and increase unemployment (Weisbrot 2006).

Finally, there is evidence that labor markets are being strained by the bankruptcy of domestic firms that cannot compete with the flood of cheap imports from more open trade (Audley et al. 2003, p. 16; Taylor 2001). Just as this job loss contributes to the informalization of the labor force, so it may be contributing to a restructuring of local bourgeoisies. A study by Silva (1996) on the fate of business during Chile's early experiment with liberalizing reforms under the Chicago Boys[3] suggests that large, export-oriented businesses with access to international capital markets may be the hardiest, and that market concentration may result. Although there is

[2] According to one estimate, from 1999 through 2001, U.S. corn was sold in Mexico at prices at least 30% below the cost of production (Audley et al. 2003, p. 17).

[3] The Chicago Boys were a group of Chilean economists, educated in the Department of Economics of the University of Chicago, who ran Chilean economic policy under the dictatorship of Augusto Pinochet in the 1970s and 1980s.

evidence from various countries that smaller and domestic-oriented entrepreneurs may “wither away” in the face of foreign competition (Carmody 1998, Tanski & French 2001, Lewis-Bynoe et al. 2002, Ocampo 2003), there have also been unexpected adaptations to new conditions. Schrank (2005) documents the rise of a new class of indigenous investors in the EPZs in the Dominican Republic who have been able to profit from their combination of local connections and access to foreign capital. However, such firms have also suffered from high rates of bankruptcy, suggesting that we should not be too optimistic in our conclusions.

Although few observers are likely to shed sympathetic tears for the declining fortunes of formerly privileged industrialists, the fate of masses of unemployed workers and displaced peasants is cause for concern. In theory, foreign investment is supposed to compensate for labor shedding in inefficient sectors by creating jobs in more efficient, productive firms. Throughout the developing world, there is strong evidence that foreign-owned firms are indeed more efficient and productive than the domestic firms that they are replacing. But more productive plants have often translated into fewer rather than more jobs (Taylor 2001, pp. 3–4; Audley et al. 2003, p. 12). Meanwhile, jobs created in EPZs may be vulnerable to capital flight to other low-wage regions. From 1994 to 2001, foreign direct investment from the United States to Mexico increased from about $5 billion per year to $16 billion per year. But most of the jobs created under NAFTA in the 1990s were in maquiladoras (EPZs), and about 30% of these jobs subsequently disappeared—many relocated to countries such as China where wages are even lower (Audley et al. 2003, pp. 45, 12). Because foreign investment has not effectively compensated for the jobs lost through structural adjustment, many developing countries continue to be plagued with unemployment and poverty-level wages (Portes & Hoffman 2003).

Although a number of studies suggest that structural adjustment has increased class inequality in many countries, the emerging evidence on gender inequality is more complex and ambiguous. In many places, structural adjustment has undermined traditional gendered divisions of labor, both by providing new opportunities for women to work for wages outside the home (e.g., in EPZs), and by contributing to male unemployment (Braunstein 2002, Ganguly-Scrase 2003). However, whether this has led to a general empowerment of women with respect to men is a much more complicated question. Answering this question requires taking a number of other factors into account, such as the position women in developing countries adopt in the labor market. For example, they may come to rely on precarious and poorly paid work in the informal economy, keeping them dependent on male incomes (Itzigsohn 2000). Gender roles may be slow to adapt to changing conditions (as “second shifters” in the United States know all too well), and multinational firms may actually encourage the reproduction of traditional roles (Gutmann 1996, Salzinger 2002). Furthermore, other circumstances related to structural adjustment, such as external debt and reduced government budgets, may undermine the position of women by eliminating resources such as access to education and healthcare (Buchmann 1996, Braunstein 2002). Thus, the impact of structural adjustment on gender inequalities is an area ripe for further research.

Overall, the consequences of structural adjustment for national and global class structures seem more suggestive of dependency than modernization. Under other circumstances, growing income inequality might be seen as compatible with the "Kuznets curve," in which rapid economic growth benefits upper- more than lower-strata groups; a rising tide may lift all boats, but in the early stages of development it may lift some boats more than others. But for the majority of developing countries in the past two decades, the tide has not risen at all, or only barely. Third World societies have undergone major transformations that are supposed to be the hallmarks of modernizing societies—mass movement off the land, urbanization, and industrialization. And yet, these transformations have not been consistently associated with economic growth and declining inequality across nations. This is precisely the sort of contradiction that interested dependency theorists—the emergence of social structures reminiscent of the core in some respects, but with very different underpinnings and consequences.

## THE RISE OF TRANSNATIONAL NETWORKS

Their numerous disagreements notwithstanding, a feature shared by modernization and dependency theorists alike was an emphasis on the nation-state as the unit of analysis. Both types of theorists focused on issues of national development and nation-level social transformations. The era of structural adjustment, however, has cast fundamental doubts on the utility of these postwar conceptual categories by contributing to the rise of social networks that span national borders. This section examines literature documenting transnationalism in three areas: business, labor markets, and policy.

Where business is concerned, it is not immediately apparent why transnationalism represents anything new—after all, during the 1970s, large foreign multinationals set up local branches in developing countries. What is new about current trends, however, is the spread of an organizational form characterized by networks rather than hierarchies (Gereffi 1994, Castells 2000, DiMaggio 2001). Today, global production increasingly relies on subcontractors and sub-subcontractors outside the scope of any single firm or nation. The computer one purchases at Best Buy, for example, contains components made and assembled by the workers of different firms in various different nations.

It is common to attribute this new production system to advances in technology (see Castells 2000). Advances in communications (e.g., the Internet) and transportation make it far easier for firms to subcontract to suppliers in faraway countries and to continually shop around for the suppliers that offer the most attractive prices. But the role of structural adjustment in creating these conditions should not be underestimated. Liberalizing reforms, combined with the setting up of EPZs in which regulations are reduced even further, facilitate global production networks by eliminating the friction of tariffs, taxes, complicated labor laws, and red tape. The global production networks that result are with "just-in-time" production:

Retailers order items from their suppliers (and the suppliers from their suppliers, and so on) as they are needed, rather than keeping large inventories in stock.

Among the virtues of this new system is that it is leaner: It eliminates bureaucratic inefficiencies and puts a premium on getting products to consumers quickly and at the lowest possible price. However, critics of the system point out that it is also meaner. In the garment and other industries, this system has been associated with an increased reliance on offshore sweatshop production (Rosen 2002). Whereas bureaucratic firms can be publicly criticized and sanctioned for unethical practices, holding them accountable for the practices of their suppliers, sub-suppliers, and so on down the food chain is much more difficult. Defenders of economic globalization often point out that the affiliates of foreign firms pay on average one third more than the prevailing national wages (Graham 2000, p. 94). But the pants one buys at Target are not produced by the Docker corporation; the company that puts its label on a particular pair of pants may not provide—or even possess—information concerning the conditions under which it was produced (O'Rourke 2003).

However, firms are not alone in using networks that span national borders. A number of scholars have identified a trend toward "globalization from below" through the establishment of transnational migrant networks (Portes 1998, Kyle 2000, Levitt 2001, Massey et al. 2002). Structural adjustment fosters the development of these communities at multiple levels. Most obviously, for the reasons enumerated above, structural adjustment puts pressure on national labor markets, leading to economic incentives to out-migrate (Massey & Espinosa 1997). Meanwhile, foreign direct investment incorporates traditional segments of the population into the paid labor force and contributes to the Westernization of local cultures, making populations ripe for migration (Sassen 1988). High levels of foreign debt contribute to high interest rates in developing countries, which in turn cause their residents to work abroad to save up capital to invest in homes or small businesses (Massey & Espinosa 1997). Under NAFTA, the illegal immigration of Mexicans to the United States has increased significantly, despite increases in border control (Audley et al. 2003, p. 48). A recent United Nations report finds a 14% increase in the total world stock of migrants between 1990 and 2000 alone (UN Popul. Div. 2002).

Transnational migration theorists suggest that new patterns of immigration differ from older waves in that they are not necessarily characterized by assimilation and permanent settlement. Many immigrants maintain strong social ties back home and travel back and forth between countries on a regular basis; others leave spouses and children behind in the expectation that they will return when enough money has been saved (Portes 1998, Levitt 2001, Parrenas 2001). Most recently, a more privileged class of transmigrant has emerged: well-paid, high-tech workers, often from India, with ties to both their receiving country and their country of origin (Schrank 2003). The experiences of transnational elites, which are obviously very different from those of the typical illegal Mexican factory worker, represent an underexplored and fascinating area of investigation.

One striking new trend linked to the rise of transnational migrant networks is the growing importance of remittances—cash sent home to the country of origin—in the economies of developing countries (Parrenas 2001, Orozco 2002, Portes & Hoffman 2003). According to a recent World Bank report, in 2001 the official total of remittances to developing economies was more than $70 billion, and contributed more than 10% to the GDP of nations that included Jordan, Lesotho, Albania, Nicaragua, El Salvador, Cape Verde, and Jamaica (Ratha 2003). Although the World Bank tends to emphasize the beneficial effects of remittances for economic development, qualitative studies of the transmigrant experience emphasize the high human cost incurred by the people who work far from family and community, for low wages, and often without legal rights or protections (see Parrenas 2001, Levitt 2001).

Finally, structural adjustment has been met with a new kind of resistance that also relies on border-spanning social ties. Peter Evans (2000) identifies three kinds of transnational ties contributing to what he terms "counter-hegemonic globalization." First, there are transnational advocacy networks: Globalization has created political openings that allow cross-border activists to leverage changes in state policies (Keck & Sikkink 1998). For example, the Jubilee movement has drawn world attention to the issue of Third World debt and was arguably an important factor in pushing forward the Heavily Indebted Poor Countries initiative endorsed by the World Bank and IMF (Donnelly 2002). Second, workers have strengthened contacts with their allies across borders to help compensate for the lack of bargaining power of workers faced with highly mobile capital (Kidder 2002). Third, there has been a proliferation of consumer-labor networks designed to help compensate for Third World states' inability or unwillingness to enforce fair labor practices, of the sort exemplified by the campus antisweatshop movement (Gereffi et al. 2001, O'Rourke 2003).

## FINAL THOUGHTS

The era of structural adjustment has been associated with a number of fundamental and seemingly irreversible social transformations. Some of these changes, such as the rise of global networks, seem to have made the old modernization-dependency debates irrelevant. Others, such as the adoption of U.S.-style patterns of economic governance around the world and the heightened salience of core pressures for policies in the periphery, echo the debates of the 1970s in ways that are interesting and potentially illuminating.

Over the past half-dozen years or so, there have been some signs that the intellectual and political underpinnings of the current order are being eroded, including a resurgence of Third World nationalist rhetoric, international social forums, and the rise and persistence of protests against multilateral organizations. Perhaps most interestingly, a number of prominent economists have begun to critique some of the fundamental tenets of the reigning model (see Stiglitz 2002).

However, although these trends have created space for debate, they have thus far coalesced into neither a school of thought nor a coherent set of policy alternatives.

This seems like a propitious time for sociologists to situate themselves within debates about what has happened, what went wrong, and what is to be done. Sociology lost considerable ground during the era of structural adjustment, which gave economists greater disciplinary dominance over discussions of the problems of poor countries. Consequently, many of the broader sociological, historical, and philosophical questions about the nature of modernity were thrust to the margins, as debates came to revolve around rational actors rather than the forces of history. A return to the big questions might be precisely what is needed to build a paradigmatic challenge, and a new terrain for debate.

## ACKNOWLEDGMENTS

Many thanks to Andrew Schrank and Mark Weisbrot for their extremely timely and helpful advice on this manuscript.

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AR Annual Review of Sociology
Volume 31, 2005

# CONTENTS

Frontispiece—*James S. Coleman* xii

**PREFATORY CHAPTER**

The Sociology of James S. Coleman, *Peter V. Marsden* 1

**SOCIAL PROCESSES**

Doing Justice to the Group: Examining the Roles of the Group in Justice Research, *Karen A. Hegtvedt* 25

Identity Politics, *Mary Bernstein* 47

The Social Psychology of Health Disparities, *Jason Schnittker and Jane D. McLeod* 75

Assessing Immigrant Assimilation: New Empirical and Theoretical Challenges, *Mary C. Waters and Tomás R. Jiménez* 105

**INSTITUTIONS AND CULTURE**

Reading and the Reading Class in the Twenty-First Century, *Wendy Griswold, Terry McDonnell, and Nathan Wright* 127

**FORMAL ORGANIZATIONS**

New Directions in Corporate Governance, *Gerald F. Davis* 143

**POLITICAL AND ECONOMIC SOCIOLOGY**

Emerging Inequalities in Central and Eastern Europe, *Barbara Heyns* 163

The Social Consequences of Structural Adjustment: Recent Evidence and Current Debates, *Sarah Babb* 199

**DIFFERENTIATION AND STRATIFICATION**

Inequality of Opportunity in Comparative Perspective: Recent Research on Educational Attainment and Social Mobility, *Richard Breen and Jan O. Jonsson* 223

White Racial and Ethnic Identity in the United States, *Monica McDermott and Frank L. Samson* 245

**INDIVIDUAL AND SOCIETY**

Agency Theory, *Susan P. Shapiro* 263

DEMOGRAPHY

Multiethnic Cities in North America, *Eric Fong and Kumiko Shibuya* 285

URBAN AND RURAL COMMUNITY SOCIOLOGY

Black Middle-Class Neighborhoods, *Mary Pattillo* 305

Macrostructural Analyses of Race, Ethnicity, and Violent Crime: Recent Lessons and New Directions for Research, *Ruth D. Peterson and Lauren J. Krivo* 331

POLICY

Affirmative Action at School and on the Job, *Shannon Harper and Barbara Reskin* 357

Emerging Theories of Care Work, *Paula England* 381

INDEXES

Subject Index 401

Cumulative Index of Contributing Authors, Volumes 22–31 423

Cumulative Index of Chapter Titles, Volumes 22–31 427

ERRATA

An online log of corrections to *Annual Review of Sociology* chapters may be found at http://soc.annualreviews.org/errata.shtml